Allocation of CO2 Allowances to Electricity Generators

-Newington Energy, LLC Position-

- Allocation of allowances under similar "Cap and Trade" programs are meant for the generator. Any revenue benefit should stay with the more carbon efficient units. *– The Cap and Trade approach should mirror previously successful programs and provide the incentive to the cleaner plants. Taking away that incentive and straying from a proven method will make it more difficult to transition the program into a national program – the ultimate goal of RGGI.*

- The Cap in "Cap and Trade" provides the desired reduction in C02. Auction of allowances will only make it cost more. *– If allocations are given to non-generators for auction purposes, the probable outcome will be higher cost of allowances than if they were directly allocated to the generators. If generators must buy all of their allowances, the high cost of this will have to be passed on to the consumer. By allocating the majority of the needed allowances to the generator, the cost of the remaining needed allowances can be kept in check resulting in lower energy costs to the consumer. Furthermore, passage of costs to the consumer in NH is not a level playing field. PSNH will be able to include costs in its rate-base generation, while the independent generators will be placed at a disadvantage vis-à-vis other generation in ISO NE.*

- Use of allowance auction proceeds to fund efficiency projects will only serve to reduce the number of viable offset projects for generators. *– If auction proceeds are used to directly fund energy efficiency projects, there will be less available offset projects for generators to complete as a compliance mechanism. This will in turn, drive up the cost of allowances.*

- Auction of CO2 allowances will only add uncertainty for electricity pricing and could speed the projected capacity shortfall. *– Auction of allowances would drive up the price of electricity. This may actually limit the construction of new generation as the available allowances for new plants remains the same and the cost of entry into the market increases. Added uncertainty will only slow the development of new plants at a time ISO NE projects steady growth and a shortfall in several years.*

- The "California" affect is a real possibility. If auctions of allowances are held, there is no mechanism to prevent a group from purchasing a large block of allowances and take them out of circulation, either through retirement or out of the region. *- California is the world's 7th largest economy, and has a much bigger carbon footprint than the Northeast. If California, or others, are allowed to buy large blocks of allowances it would drive up the cost of allowances and potentially "over cap" the reduction goals of RGGI. While this might result in greater CO2 reductions, it would harm the consumer by driving up electricity prices and could ultimately lead to power shortages. The problem could be*

exacerbated or evident during natural gas shortages (i.e. winter heating season) if a dual fuel plant is not able to have enough allowances to operate on fuel oil when gas is curtailed.

- Allocation of allowances to the end user (the electricity generators) will provide the lowest cost of electricity, minimize the uncertainty of allowance availability, address rate-base rollover costs for regulated utilities and, under the cap, will provide the desired CO2 reductions. – *In conclusion…*